

CITY OF FAIRFAX
INDEPENDENT AUDITOR'S REPORTS
BASIC FINANCIAL STATEMENTS
SUPPLEMENTARY AND OTHER INFORMATION
SCHEDULE OF FINDINGS

June 30, 2013

TABLE OF CONTENTS

		<u>Page</u>
Officials		3
Independent Auditor's Report		4-6
Management's Discussion and Analysis		7-14
Basic Financial Statements:	<u>Exhibit</u>	
Government-wide Financial Statement:		
Cash Basis Statement of Activities and Net Position	A	16-17
Governmental Fund Financial Statement:		
Statement of Cash Receipts, Disbursements and Changes in Cash Balances	B	18-19
Proprietary Fund Financial Statement:		
Statement of Cash Receipts, Disbursements and Changes in Cash Balances	C	20
Notes to Financial Statements		21-29
Other Information:		
Budgetary Comparison Schedule of Receipts, Disbursements, and Changes in Balances - Budget And Actual (Cash Basis) - All Governmental Funds And Proprietary Funds		31
Notes to Other Information - Budgetary Reporting		32
Supplementary Information:	<u>Schedule</u>	
Schedule of Cash Receipts, Disbursements and Changes in Cash Balances:		
Nonmajor Proprietary Funds	1	34
Schedule of Indebtedness	2	35
Bond and Notes Maturities	3	36-37
Schedule of Receipts by Source and Disbursements by Function - All Governmental Funds	4	38
Independent Auditor's Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <u>Government Auditing Standards</u>		39-41
Schedule of Findings		42-44

CITY OF FAIRFAX

OFFICIALS

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
Jason Rabe	Mayor	Jan. 2014
Marianne Wainwright	Mayor Pro tem	Jan. 2014
JoAnn Beer	Council Member	Jan. 2014
Bernie Frieden	Council Member	Jan. 2014
Travis Otto	Council Member	Jan. 2016
Marc Magers	Council Member	Jan. 2016
Cynthia Stimson	City Clerk/Treasurer	Indefinite
Kathy Everett	Deputy Clerk	Indefinite
Randy Scholer	Attorney	Indefinite

Dietz, Donald & Company

CERTIFIED PUBLIC ACCOUNTANTS

STEVEN S. CLAUSEN, CPA

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INDEPENDENT AUDITOR'S REPORT

To the Honorable Mayor and
Members of the City Council:

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business type activities, each major fund, and the aggregate remaining fund information of the City of Fairfax, Iowa, as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise the City's basic financial statements listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with the cash basis of accounting described in Note 1. This includes determining the cash basis of accounting is an acceptable basis for the preparation of the financial statements in the circumstances. This includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing the audit procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the City's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control. Accordingly, we express no such opinion.

An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management as well as evaluating the overall presentation of the financial statements.

We believe the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective cash basis financial position of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of the City of Fairfax as of June 30, 2013, and the respective changes in cash basis financial position for the year then ended in accordance with the basis of accounting described in Note 1.

Basis of Accounting

As described in Note 1, these financial statements were prepared on the basis of cash receipts and disbursements, which is a basis of accounting other than U.S. generally accepted accounting principles. Our opinions are not modified with respect to this matter.

Other Matters

Supplementary and other information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Fairfax's basic financial statements. We previously audited, in accordance with the standards referred to in the third paragraph of this report, the financial statements for the three years ended June 30, 2012 (which are not presented herein) and expressed unqualified opinions on the June 30, 2012 and 2011 financial statements and a qualified opinion on the June 30, 2010 financial statements which were all prepared on the basis of cash receipts and disbursements. The supplementary information included in Schedules 1 through 4 is presented for purposes of additional analysis and is not a required part of the basic financial statements.

The supplementary information is the responsibility of management and was derived from and relates to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with U.S. generally accepted auditing standards. In our opinion, the supplementary information is fairly

stated in all material respects in relation to the basic financial statements taken as a whole.


The other information, Management's Discussion and Analysis and the Budgetary Comparison Information on pages 7 through 14 and 31 through 32, has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on it.

Other Reporting Required by Government Auditing Standards

In accordance with Government Auditing Standards, we have also issued our report dated December 13, 2013 on our consideration of the City of Fairfax's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards in considering the City of Fairfax's internal control over financial reporting and compliance.

Elkader, Iowa

December 13, 2013


Dietz, Donald & Company
Certified Public Accountants
FEIN 42-1172392

City of Fairfax

Office of the Clerk

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Fairfax, IA 52228-0337

319-846-2204
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MANAGEMENT'S DISCUSSION AND ANALYSIS

The City of Fairfax provides this Management's Discussion and Analysis of its financial statements. This narrative overview and analysis of the financial activities is for the fiscal year ended June 30, 2013. We encourage readers to consider this information in conjunction with the City's financial statements which follow.

2013 FINANCIAL HIGHLIGHTS

- Receipts of the City's governmental activities decreased 55.0%, or approximately \$ 2.517 million from fiscal 2012 to fiscal 2013. Property tax decreased approximately \$ 18,000 and bond proceeds decreased approximately \$ 2.85 million.
- Disbursements of the City's governmental activities increased 51.0% or approximately \$ 1.383 million in fiscal 2013 from fiscal 2012. Culture and recreation, debt service and public works increased \$ 479,000, \$ 663,000, and \$ 152,000, respectively.
- The City's total cash basis net position decreased 59.9%, or approximately \$ 1.731 million from June 30, 2012 to June 30, 2013. Of this amount, the cash basis net position of the governmental activities decreased approximately \$ 1.731 million and the cash basis net position of the business type activities decreased approximately \$ 82,000.

USING THIS ANNUAL REPORT

The annual report consists of a series of financial statements and other information, as follows:

Management's Discussion and Analysis introduces the basic financial statements and provides an analytical overview of the City's financial activities.

The Government-wide Financial Statement consists of a Cash Basis Statement of Activities and Net Position. This statement provides information about the activities of the City as a whole and presents an overall view of the City's finances.

The Fund Financial Statements tell how governmental services were financed in the short term as well as what remains for future spending. Fund financial statements report the City's operations in more detail than the government-wide statement by providing information about the most significant funds.

Notes to Financial Statements provide additional information essential to a full understanding of the data provided in the basic financial statements.

Other Information further explains and supports the financial statements with a comparison of the City's budget for the year.

Supplementary Information provides detailed information about the non-major proprietary funds and the City's indebtedness.

BASIS OF ACCOUNTING

The City maintains its financial records on the basis of cash receipts and disbursements and the financial statements of the City are prepared on that basis. The cash basis of accounting does not give effect to accounts receivable, accounts payable, and accrued items. Accordingly, the financial statements do not present financial position and results of operations of the funds in accordance with U.S. generally accepted accounting principles. Therefore, when reviewing the financial information and discussion within this report, readers should keep in mind the limitations resulting from the use of the cash basis of accounting.

REPORTING THE CITY'S FINANCIAL ACTIVITIES

Government-wide Financial Statement

One of the most important questions asked about the City's finances is, "Is the City as a whole better off or worse off as a result of the year's activities?" The Cash Basis Statement of Activities and Net Position reports information which helps answer this question.

The Cash Basis Statement of Activities and Net Position presents the City's net position. Over time, increases and decreases in the City's net position may serve as a useful indicator of whether the financial position of the City is improving or deteriorating.

The Cash Basis Statement of Activities and Net Position is divided into two kinds of activities:

1. Governmental Activities include public safety, public works, culture and recreation, community and economic development, general government and debt service. Property tax and state grants finance most of these activities.

2. Business Type Activities include the waterworks, the sanitary sewer system, solid waste disposal and farming operations. These activities are financed primarily by user charges.

Fund Financial Statements

The City has two kinds of funds:

1. Governmental funds account for most of the City's basic services. These focus on how money flows into and out of those funds and the balances at year-end that are available for spending. The governmental funds include [a] the General Fund, [b] the Special Revenue Funds, such as Road Use Tax, Urban Renewal Tax Increment and Local Option Sales Tax, and [c] the Debt Service Fund. The governmental fund financial statements provide a detailed, short-term view of the City's general government operations and the basic services it provides. Governmental fund information helps determine whether there are more or fewer financial resources that can be spent in the near future to finance the City's programs.

The required financial statement for governmental funds is a statement of cash receipts, disbursements and changes in cash balances.

2. Proprietary funds account for the City's Enterprise Funds. Enterprise Funds are used to account for business type activities. The City maintains four Enterprise Funds to provide separate information for the Water, Sewer, Garbage and Farm Operation funds. The Water and Sewer Funds are considered to be major funds of the City.

The required financial statement for proprietary funds is a statement of cash receipts, disbursements and changes in cash balances.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Net position may serve over time as a useful indicator of financial position. The City's cash balance for governmental activities decreased from a year ago, decreasing approximately \$ 1.731 million to approximately \$ 1.159 million. The analysis that follows focuses on the changes in cash basis net position of governmental activities.

Changes in Cash Basis Net Position of Governmental Activities
(Expressed in Thousands)

	<u>Year Ended June 30,</u>	
	<u>2013</u>	<u>2012</u>
Receipts:		
Program receipts:		
Charges for service	\$ 166	163
Operating grants and contributions, and		
Restricted interest	339	279
General receipts:		
Property tax	1,245	997
Local option sales tax	240	256
Unrestricted interest on investments	10	26
Bond proceeds	0	2,850
Other general receipts	56	4
Total receipts	<u>2,056</u>	<u>4,575</u>
Disbursements:		
Public safety	400	263
Public works	418	266
Culture and recreation	1,602	1,124
Community and economic development	5	12
General government	199	241
Debt service	1,469	805
Total disbursements	<u>4,093</u>	<u>2,711</u>
Change in cash basis net position before transfers	(2,037)	1,864
Transfers, net	<u>306</u>	<u>63</u>
Change in cash basis net position	(1,731)	1,927
Cash basis net position beginning of year	<u>2,890</u>	<u>963</u>
Cash basis net position end of year	<u>\$ 1,159</u>	<u>2,890</u>

The City's total receipts for governmental activities decreased 55.0%, or approximately \$ 2.517 million. The total cost of programs and services increased approximately \$ 1.383 million or 51.0%. The significant decrease in receipts was primarily the result of no bonds being issued in 2013. The significant increase in disbursements was primarily the result of an increase in disbursements for the Fairfax Athletics and Park Complex, refunding of the 2004 general obligation notes, construction of a new storage shed and purchase of a new rescue unit.

City property tax receipts decreased approximately \$ 18,000 in 2013. Property taxes are budgeted to increase approximately \$ 63,000 in 2014, due primarily to a 12.4% increase in property valuations.

The cost of all governmental activities this year was approximately \$ 4.093 million compared to \$ 2.711 million last year. However, as shown in the Cash Basis Statement of Activities and Net Position on pages 16-17, the amount taxpayers ultimately financed for these activities was only \$ 3.589 million because some of the cost was paid by those directly benefited from the programs (\$ 166,000) or by other governments and organizations that subsidized certain programs with grants, contributions and restricted interest (\$ 339,000). Overall in 2013, the City's governmental activities program receipts, including intergovernmental aid and fees for services, increased from approximately \$ 442,000 to approximately \$ 505,000, principally due to receiving more grant proceeds and donations. The City paid for the remaining "public benefit" portion of governmental activities with approximately \$ 1.485 million in tax (some of which could only be used for certain programs) and with other receipts, such as transfers and sale of capital assets.

Changes in Cash Basis Net Position of Business Type Activities
(Expressed in Thousands)

	<u>Year Ended June 30,</u>	
	<u>2013</u>	<u>2012</u>
Receipts:		
Program receipts:		
Charges for service:		
Water	\$ 229	197
Sewer	370	336
Garbage	114	106
Farm	13	26
General receipts:		
Miscellaneous	9	5
Total receipts	<u>735</u>	<u>670</u>

Disbursements:

Water	205	513
Sewer	185	155
Garbage	109	105
Farm	12	6

Total disbursements	511	779
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Change in cash basis net position before transfers	224	(109)
Transfers, net	(306)	(63)

Change in cash basis net position	(82)	(172)
Cash basis net position beginning of year	483	655

Cash basis net position end of year	\$ 401	483
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Total business type activities receipts for the fiscal year were approximately \$ 735,000 compared to \$ 670,000 last year. The significant increase was due primarily to both an increase in rates in the prior year and an increase in usage. Total disbursements decreased from approximately \$ 779,000 to approximately \$ 511,000 because of less construction work being completed in 2013.

INDIVIDUAL MAJOR GOVERNMENTAL FUND ANALYSIS

As the City of Fairfax completed the year, its governmental funds reported a combined fund balance of \$ 1,159,055, a decrease of \$ 1,730,685 from last year's total of \$ 2,889,740. The following are the major reasons for the changes in fund balances of the major funds from the prior year.

- The General Fund cash balance decreased \$ 1,346,127 from the prior year to \$ 855,160. This decrease was due primarily to general obligation bond proceeds received for the Fairfax Athletics and Park Complex in fiscal 2012, but disbursed in fiscal 2013.
- The Special Revenue, Urban Renewal Tax Increment Fund was established to account for projects within the City's urban renewal districts. At the end of the fiscal year, the cash balance was \$ 43,489, a decrease of \$ 14,026 from the previous year. Receipts in the fund are being used to retire debt acquired from extending infrastructure and improving land in the urban renewal districts. Receipts were \$ 27,875 less than budgeted.
- The Special Revenue, Local Option Sales Tax Fund was established in 2009 as the City began collecting the 1% local option sales tax. Sales tax receipts were \$ 240,131 for fiscal year 2013. The City disbursed \$ 16,363 of sales tax receipts for the purchase of a rescue vehicle, \$ 40,745 for GPS mapping of the sewer system, and \$ 68,935 for a new storage building. At June 30, 2013, the fund balance was \$ 224,367, an increase of \$ 66,749 from fiscal 2012.

- The Debt Service Fund retired \$ 1,237,000 of outstanding debt and paid \$ 231,724 of interest and service fees during fiscal 2013. The Debt Service Fund received \$ 85,085 from the General Fund, \$ 732,651 from the Special Revenue, Urban Renewal Tax Increment Fund, \$ 10,830 from the Enterprise, Water Fund and \$ 195,515 from the Enterprise, Sewer Fund to cover debt service payments. At the end of June, 2012, the fund received general obligation bond proceeds to retire the December 1, 2004 issue.

INDIVIDUAL MAJOR BUSINESS TYPE FUND ANALYSIS

- The Enterprise, Water Fund cash balance decreased \$ 85,197 to \$ 121,662 due to transfer of \$ 94,222 to the park project for the water main extension portion of the project.
- The Enterprise, Sewer Fund cash balance decreased \$ 3,198.

BUDGETARY HIGHLIGHTS

Over the course of the year the City amended its budget once. The amendment was approved April 9, 2013 and increased budgeted disbursements \$ 795,877 primarily because of early debt refunding.

The City's receipts were \$ 548,569 less than budgeted. This was primarily due to the City not receiving as much in state grants as anticipated.

Actual disbursements for the public works, culture and recreation, and business type activities functions were \$ 792,952, \$ 1,596,624 and \$ 214,440, respectively, less than the amended budget. This was primarily due to timing differences for the park project.

DEBT ADMINISTRATION

At June 30, 2013, the City had \$ 6,932,745 of long-term debt outstanding, compared to \$ 8,205,346 last year, as shown in the following:

<u>Outstanding Debt at Year-End</u> <u>(Expressed in Thousands)</u>		
	<u>June 30,</u>	
	<u>2013</u>	<u>2012</u>
General obligation notes	\$ 1,430	2,175
General revenue bonds	3,328	3,698
Revenue bonds	2,140	2,262
Lease/purchase agreements	35	70
Total	<u>\$ 6,933</u>	<u>8,205</u>

The City defeased \$ 430,000 of general obligation bonds in July, 2012, as the City debt decreased approximately \$ 1,272,000 during fiscal 2013.

The Constitution of the State of Iowa limits the amount of general obligation debt cities can issue to 5% of the assessed value of all taxable property within the City's corporate limits. The City's outstanding general obligation debt of \$ 4,792,745 is less than its constitutional debt limit of approximately \$ 8.9 million.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET AND RATES

The City of Fairfax's elected and appointed officials and citizens considered many factors when setting the fiscal year 2014 budget, tax rates and fees that will be charged for various City activities. One of these factors is the economy. The City has experienced over a 138% increase in population from 2000 to 2010. Taxable valuations increased 12.4% between January 1, 2011 and January 1, 2012.

These indicators were taken into account when adopting the budget for fiscal year 2014. Amounts available for appropriation in the operating budget are \$ 5.131 million, a decrease of 20.7% from the final 2013 budget. Property taxes are budgeted to increase \$ 62,865. The tax levy rate remains unchanged. Disbursements are budgeted to decrease approximately \$ 1.734 million.

If these estimates are realized, the City's budgeted cash balance is expected to decrease \$ 531,620 by the close of 2014.

CONTACTING THE CITY'S MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, customers, and creditors with a general overview of the City's finances and to show the City's accountability for the money it receives. If you have any questions about this report or need additional financial information, contact Cynthia Stimson, City Clerk/Treasurer; 525 Vanderbilt Street; Fairfax, Iowa 52228-0337.

BASIC FINANCIAL STATEMENTS

Exhibit A

CITY OF FAIRFAX
CASH BASIS STATEMENT OF ACTIVITIES AND NET POSITION
As of and for the Year Ended June 30, 2013

Functions/Programs: Governmental activities:	Disbursements	Program Receipts		Net (Disbursements) Receipts and Changes in Cash Basis Net Position		
		Charges for Service	Operating Grants and Contributions	Governmental Activities	Business Type Activities	Total
Public safety	\$ 400,435	96,377	104,698	(199,360)	-	(199,360)
Public works	417,548	-	203,483	(214,065)	-	(214,065)
Culture and recreation	1,602,417	34,083	31,068	(1,537,266)	-	(1,537,266)
Community and economic development	5,326	250	-	(5,076)	-	(5,076)
General government	198,952	34,884	-	(164,068)	-	(164,068)
Debt service	1,468,724	-	-	(1,468,724)	-	(1,468,724)
Total governmental activities	4,093,402	165,594	339,249	(3,588,559)	-	(3,588,559)
Business type activities:						
Water	205,181	228,725	-	-	23,544	23,544
Sewer	184,955	370,119	-	-	185,164	185,164
Garbage	109,370	113,805	-	-	4,435	4,435
Farm	11,504	12,945	-	-	1,441	1,441
Total business type activities	511,010	725,594	-	-	214,584	214,584
Total	\$ 4,604,412	\$ 891,188	\$ 339,249	\$ (3,588,559)	\$ 214,584	\$ (3,373,975)
General Receipts and Transfers						
Property and other city tax				528,032	-	528,032
Tax increment financing				717,125	-	717,125
Local option sales tax				240,131	-	240,131
Unrestricted interest				10,280	19	10,299
Miscellaneous				20,547	9,292	29,839
Sale of capital assets				35,424	-	35,424
Transfers				306,335	(306,335)	-
Total general receipts and transfers				1,857,874	(297,024)	1,560,850
Change in cash basis net position				(1,730,685)	(82,440)	(1,813,125)
Cash basis net position beginning of year				2,889,740	482,750	3,372,490
Cash basis net position end of year				\$ 1,159,055	\$ 400,310	\$ 1,559,365

(continued)

CITY OF FAIRFAX
CASH BASIS STATEMENT OF ACTIVITIES AND NET POSITION
As of and for the Year Ended June 30, 2013

	Governmental Activities	Business Type Activities	Total
Cash Basis Net Position			
Restricted:			
Nonexpendable:			
Meter deposits	\$ -	12,930	12,930
Expendable:			
Debt service	-	57,327	57,327
Streets	36,039	-	36,039
Fire department	138,000	-	138,000
Fireworks	16,760	-	16,760
Library	222,159	-	222,159
Parks	124,849	-	124,849
Trail project	143,489	-	143,489
Sewer improvements	29,598	-	29,598
Water main extension	-	29,661	29,661
Other purposes	94,769	-	94,769
Unrestricted	353,392	300,392	653,784
Total cash basis net position	\$ 1,159,055	400,310	1,559,365

See notes to financial statements.

Exhibit B

CITY OF FAIRFAX
STATEMENT OF CASH RECEIPTS, DISBURSEMENTS
AND CHANGES IN CASH BALANCES
GOVERNMENTAL FUNDS
As of and for the Year Ended June 30, 2013

	Special Revenue			Nonmajor		Total
	General	Urban Renewal Tax Increment	Local Option Sales Tax	Debt Service	Road Use Tax	
Receipts:						
Property tax	\$ 520,387	-	-	-	-	520,387
Tax increment financing	-	717,125	-	-	-	717,125
Other city tax	7,645	-	240,131	-	-	247,776
Licenses and permits	26,452	-	-	-	-	26,452
Use of money and property	12,143	1,653	80	-	-	13,876
Intergovernmental	144,472	-	-	-	203,311	347,783
Charges for service	5,105	-	-	-	-	5,105
Miscellaneous	142,454	-	-	-	-	142,454
Total receipts	858,658	718,778	240,211	-	203,311	2,020,958
Disbursements:						
Operating:						
Public safety	384,072	-	16,363	-	-	400,435
Public works	84,940	-	136,459	-	196,149	417,548
Culture and recreation	1,576,010	-	26,407	-	-	1,602,417
Community and economic development	5,326	-	-	-	-	5,326
General government	198,952	-	-	1,468,724	-	1,667,676
Debt service	-	-	-	-	-	-
Total disbursements	2,249,300	-	179,229	1,468,724	196,149	4,093,402
Excess (deficiency) of receipts over (under) disbursements	(1,390,642)	718,778	60,982	(1,468,724)	7,162	(2,072,444)
Other financing sources (uses):						
Sale of capital assets	35,424	-	-	-	-	35,424
Operating transfers in	94,222	-	5,767	1,024,281	-	1,124,270
Operating transfers out	(85,131)	(732,804)	-	-	-	(817,935)
Total other financing sources (uses)	44,515	(732,804)	5,767	1,024,281	-	341,759
Change in cash balances	(1,346,127)	(14,026)	66,749	(444,443)	7,162	(1,730,685)
Cash balances beginning of year	2,201,287	57,515	157,618	444,443	28,877	2,869,740
Cash balances end of year	\$ 855,160	43,489	224,367	-	36,039	1,159,055

(continued)

Exhibit B
(continued)

CITY OF FAIRFAX
STATEMENT OF CASH RECEIPTS, DISBURSEMENTS
AND CHANGES IN CASH BALANCES
GOVERNMENTAL FUNDS
As of and for the Year Ended June 30, 2013

Cash Basis Fund Balances Restricted for:	Special Revenue				Nonmajor		Total
	General	Urban Renewal Tax Increment	Local Option Sales Tax	Debt Service	Road Use Tax		
Streets	\$ -	-	-	-	36,039	-	36,039
Fire department	138,000	-	-	-	-	-	138,000
Fire works	16,760	-	-	-	-	-	16,760
Library	222,159	-	-	-	-	-	222,159
Parks	124,849	-	-	-	-	-	124,849
Trail project	-	43,489	100,000	-	-	-	143,489
Sewer improvements	-	-	29,598	-	-	-	29,598
Other purposes	-	-	94,769	-	-	-	94,769
Unassigned	353,392	-	-	-	-	-	353,392
Total cash basis fund balances	\$ 855,160	43,489	224,367	-	36,039	-	1,159,055

See notes to financial statements.

CITY OF FAIRFAX
 STATEMENT OF CASH RECEIPTS, DISBURSEMENTS
 AND CHANGES IN CASH BALANCES
 PROPRIETARY FUNDS
 As of and for the Year Ended June 30, 2013

	Enterprise			
	Water	Sewer	Nonmajor	Total
Operating receipts:				
Charges for service	\$ 228,725	370,119	126,750	725,594
Operating disbursements:				
Business type activities	198,311	184,955	120,874	504,140
Excess of operating receipts over operating disbursements	30,414	185,164	5,876	221,454
Non-operating receipts (disbursements)				
Interest on investments	-	-	19	19
Miscellaneous	1,141	1,041	60	2,242
Meter deposits	7,050	-	-	7,050
Meter deposits refunded	(6,870)	-	-	(6,870)
Net non-operating receipts (disbursements)	1,321	1,041	79	2,441
Excess of receipts over disbursements	31,735	186,205	5,955	223,895
Operating transfers:				
In	-	6,112	-	6,112
Out	(116,932)	(195,515)	-	(312,447)
Net operating transfers in (out)	(116,932)	(189,403)	-	(306,335)
Net change in cash balances	(85,197)	(3,198)	5,955	(82,440)
Cash balances beginning of year	206,859	237,122	38,769	482,750
Cash balances end of year	\$ 121,662	233,924	44,724	400,310
Cash Basis Fund Balances				
Restricted:				
Nonexpendable:				
Meter deposits	\$ 12,930	-	-	12,930
Expendable:				
Debt service	-	57,327	-	57,327
Water main extension	29,661	-	-	29,661
Unrestricted	79,071	176,597	44,724	300,392
Total cash basis fund balances	\$ 121,662	233,924	44,724	400,310

See notes to financial statements.

CITY OF FAIRFAX
NOTES TO FINANCIAL STATEMENTS
June 30, 2013

1) Summary of Significant Accounting Policies

The City of Fairfax is a political subdivision of the State of Iowa located in Linn County. It was first incorporated in 1936 and operates under the Home Rule provisions of the Constitution of Iowa. The City operates under the Mayor-Council form of government with the Mayor and Council Members elected on a non-partisan basis. The City provides numerous services to citizens including public safety, public works, culture and recreation, community and economic development, and general government services. The City also provides water, sewer and garbage utilities for its citizens.

A. Reporting Entity

For financial reporting purposes, the City of Fairfax has included all funds, organizations, agencies, boards, commissions, and authorities. The City has also considered all potential component units for which it is financially accountable and other organizations for which the nature and significance of their relationship with the city are such that exclusion would cause the City's financial statements to be misleading or incomplete. The Governmental Accounting Standards Board has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization's governing body and (1) the ability of the City to impose its will on that organization or (2) the potential for the organization to provide specific benefits to or impose specific financial burdens on the City. The City has not component units which meet the Governmental Accounting Standards Board criteria.

Jointly Governed Organizations

The City participates in several jointly governed organizations that provide goods or services to the citizenry of the City but do not meet the criteria of a joint venture since there is no ongoing financial interest or responsibility by the participating governments. City officials are members of the following boards and commissions: Linn County Assessor's Conference Board, Linn County Emergency Management Commission, Linn County Joint E911 Service Board, and the Corridor Metropolitan Planning Organization.

B. Basis of Presentation

Government-wide Financial Statement - The Cash Basis Statement of Activities and Net Position reports information on the non-fiduciary activities of the City.

For the most part, the effect of interfund activity has been removed from this statement. Governmental activities, which are supported by tax and intergovernmental receipts, are reported separately from business type activities, which rely to a significant extent on fees and charges for service.

The Cash Basis Statement of Activities and Net Position presents the City's non-fiduciary net position. Net position is reported in the following categories/components:

Non-expendable restricted net position is subject to externally imposed stipulations which require them to be maintained permanently by the City, including customer utility deposits.

Expendable restricted net position results when constraints placed on the use of cash balances are either externally imposed or imposed by law through constitutional provisions or enabling legislation.

Unrestricted net position consists of cash balances not meeting the definition of the preceding categories. Unrestricted net position often has constraints on resources imposed by management, which can be removed or modified.

The Cash Basis Statement of Activities and Net Position demonstrates the degree to which the direct disbursements of a given function are offset by program receipts. Direct disbursements are those clearly identifiable with a specific function. Program receipts include (1) charges to customers or applicants who purchase, use or directly benefit from goods, services or privileges provided by a given function and (2) grants, contributions and interest on investments restricted to meeting the operational or capital requirements of a particular function. Property tax and other items not properly included among program receipts are reported instead as general receipts.

Fund Financial Statements - Separate financial statements are provided for governmental funds and proprietary funds. Major individual governmental funds and major individual proprietary funds are reported as separate columns in the fund financial statements. All remaining governmental funds are aggregated and reported as non-major governmental funds. All remaining proprietary funds are aggregated and reported as non-major proprietary funds.

The City reports the following major governmental funds:

The General Fund is the general operating fund of the City. All general tax receipts and other receipts not allocated by law or contractual agreement to some other fund are accounted for in this fund. From the fund are paid the general operating disbursements, the fixed charges and the capital improvement

costs not paid from other funds.

Special Revenue:

The Urban Renewal Tax Increment Fund is used to account for tax increment financing collections and the repayment of tax increment financing indebtedness.

The Local Option Sales Tax Fund is used to account for the spending of the 1% local option sales tax in accordance with voter wishes.

The Debt Service Fund is utilized to account for the payment of interest and principal on the City's general long-term debt.

The City reports the following major proprietary funds:

The Enterprise, Water Fund accounts for the operation and maintenance of the City's water system.

The Enterprise, Sewer Fund accounts for the operation and maintenance of the City's wastewater treatment and sanitary sewer system.

C. Management Focus and Basis of Accounting

The City of Fairfax maintains its financial records on the basis of cash receipts and disbursements and the financial statements of the City are prepared on that basis. The cash basis of accounting does not give effect to accounts receivable, accounts payable and accrued items. Accordingly, the financial statements do not present financial position and results of operations of the funds in accordance with U.S. generally accepted accounting principles.

Under the terms of grant agreements, the City funds certain programs by a combination of specific cost-reimbursements grants, categorical block grants and general receipts. Thus, when program disbursements are paid, there are both restricted and unrestricted cash basis net position available to finance the program. It is the City's policy to first apply cost-reimbursement grant resources to such programs, followed by categorical block grants and then general receipts.

When disbursements in governmental funds can be paid using either restricted or unrestricted resources, the City's policy is generally to first apply the disbursement toward restricted fund balance and then to less-restrictive classifications - committed, assigned and then unassigned fund balances.

Proprietary funds distinguish operating receipts and disbursements from non-

operating items. Operating receipts and disbursements generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. All receipts and disbursements not meeting this definition are reported as non-operating receipts and disbursements.

D. Governmental Cash Basis Fund Balances

In the governmental fund financial statements, cash basis fund balances are classified as follows:

Restricted - Amounts restricted to specific purposes when constraints placed on the use of the resources are either externally imposed by creditors, grantors, or state or federal laws or imposed by law through constitutional provisions or enabling legislation.

Unassigned - All amounts not included in other spend able classifications.

E. Budgets and Budgetary Accounting

The budgetary comparison and related disclosures are reported as Other Information.

2) **Cash and Pooled Investments**

The City's deposits in banks at June 30, 2013 were entirely covered by federal depository insurance or by the State Sinking Fund in accordance with Chapter 12C of the Code of Iowa. This chapter provides for additional assessments against the depositories to insure there will be no loss of public funds.

The City is authorized by statute to invest public funds in obligations of the United States government, its agencies and instrumentalities; certificates of deposit or other evidences of deposit at federally insured depository institutions approved by the City Council; prime eligible bankers acceptances; certain high rated commercial paper; perfected repurchase agreements; certain registered open-end management investment companies; certain joint investments trusts; and warrants or improvement certificates of a drainage district.

The City had no investments meeting the disclosure requirements of Governmental Accounting Standards Board Statement No. 3.

Interest Rate Risk - The City's investment policy limit's the investment of operating funds (funds expected to be expended in the current budget year or within 15 months of receipt) to instruments that mature within 397 days. Funds not identified as operating funds may be invested in investments with maturities longer than 397

days, but the maturities shall be consistent with the needs and use of the City.

3) Bonds and Notes Payable

Annual debt service requirements to maturity for general obligation bonds and notes and revenue bonds of the City are as follows:

Year Ending June 30,	General Obligation Bonds and Notes		Revenue Notes		Total	
	Principal	Interest	Principal	Interest	Principal	Interest
2014	\$ 720,000	123,942	125,000	64,200	845,000	188,142
2015	725,000	107,046	129,000	60,450	854,000	167,496
2016	580,000	88,395	133,000	56,580	713,000	144,975
2017	435,000	73,710	137,000	52,590	572,000	126,300
2018	415,000	63,582	141,000	48,480	556,000	112,062
2019-2023	1,625,000	163,733	771,000	176,340	2,396,000	340,073
2024-2028	250,000	10,780	704,000	53,610	954,000	64,390
2029	8,000	240	0	0	8,000	240
Total	<u>\$ 4,758,000</u>	<u>631,428</u>	<u>2,140,000</u>	<u>512,250</u>	<u>6,898,000</u>	<u>1,143,678</u>

General Obligation Bonds

The agreement with the Iowa Finance Authority requires the City to annually pay a .25% servicing fee on the outstanding balance of the water improvement general obligation bonds issued on February 10, 2010, which had an outstanding balance of \$ 98,000 at June 30, 2013.

Revenue Notes

The City has pledged future sewer customer receipts, net of specified operating disbursements to repay the \$ 2,400,000 of sewer revenue bonds issued on December 1, 2008 with interest at 3% per annum. The agreement also requires the City to annually pay a .25% servicing fee on the outstanding principal balance (\$ 2,140,000 at June 30, 2013). The bonds are payable solely from sewer customer net receipts. For the current year, principal and interest paid and total customer net receipts were \$ 189,860 and \$ 185,164, respectively.

4) Other Long-Term Debt

Annual debt service requirements to maturity for other long-term debt is as follows:

<u>Year Ending June 30,</u>	<u>Lease/purchase agreement</u>	
	<u>Principal</u>	<u>Interest</u>
2014	\$ 7,006	1,963
2015	7,402	1,567
2016	20,337	1,149
Total	<u>\$ 34,745</u>	<u>4,679</u>

5) Pension and Retirement Benefits

The City contributes to the Iowa Public Employees Retirement System (IPERS), which is a cost-sharing multiple-employer defined benefit pension plan administered by the State of Iowa. IPERS provides retirement and death benefits which are established by state statute to plan members and beneficiaries. IPERS issues a publicly available financial report that includes financial statements and required supplementary information. The report may be obtained by writing to: IPERS; P.O. Box 9117; Des Moines, Iowa 50306-9117.

Plan members are required to contribute 5.78% of their annual covered salary and the City is required to contribute 8.67% of covered salary. Contribution requirements are established by state statute. The City's contributions to IPERS for the years ended June 30, 2013, 2012, and 2011 were \$ 29,619, \$ 25,292 and \$ 21,426, respectively, equal to the required contributions for each year.

6) Other Postemployment Benefits (OPEB)

Plan Description - The City operates a single-employer retiree benefit plan which provides medical/prescription drug benefits for retirees and spouses. There are 7 active and no retired members in the plan. Participants must be age 55 or older at retirement.

The medical/prescription drug benefits are provided through a fully-insured plan with United Health Care. Retirees under age 65 pay the same premium for the medical/prescription drug benefits as active employees.

Funding Policy - The contribution requirements of plan members are established and may be amended by the City.

The City currently finances the retirement benefit plan on a pay-as-you-go basis. The monthly premiums for the City and plan members are based on the age of the

participant. For the year ended June 30, 2013, the City contributed \$ 49,725.

7) **Compensated Absences**

The City employees accumulate a limited amount of earned but unused vacation and compensatory hours for subsequent use or for payment upon termination, retirement or death.

These accumulations are not recognized as disbursements until used or paid. The City's approximate liability for earned compensated absences payable to employees at June 30, 2013, primarily relating to the General Fund, is as follows:

<u>Type of Benefit</u>	<u>Amount</u>
Vacation	\$ 5,100
Compensatory hours	<u>10,600</u>
Total	<u>\$ 15,700</u>

The liability has been computed based on rates of pay in effect at June 30, 2013.

8) **Interfund Transfers**

The detail of interfund transfers for the year ended June 30, 2013 are as follows:

<u>Transfer to</u>	<u>Transfer from</u>	<u>Amount</u>
General	Enterprise: Water	<u>\$ 94,222</u>
Special Revenue: Local Option Sales Tax	Enterprise: Water	<u>5,767</u>
Debt Service	General	85,131
	Special Revenue: Urban Renewal Tax Increment	732,804
	Enterprise: Water	10,831
	Sewer	<u>195,515</u>
		<u>1,024,281</u>
Enterprise: Sewer	Enterprise: Water	<u>6,112</u>
Total		<u>\$ 1,130,382</u>

Transfers generally move resources from the fund statutorily required to collect the resources to the fund statutorily required to disburse the resources.

9) Risk Management

The City is exposed to various risks of loss related to torts; theft, damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. These risks are covered by the purchase of commercial insurance. The City assumes liability for any deductibles and claims in excess of coverage limitations. Settled claims from these risks did not exceed commercial insurance in any of the past three years.

10) Debt Defeasance

On June 26, 2012, the City issued \$ 590,000 in General Obligation Fire Truck and Refunding Bonds with interest ranging from 0.60% to 1.70%. The bonds were used for the purpose of purchasing a fire truck and refunding the City's General Obligation Wastewater Improvement Notes with interest ranging from 3.55% to 4.50% totaling \$ 430,000.

The advance refunding met the requirements of a debt defeasance. The City in effect reduced the aggregate debt service payments by approximately \$ 44,300 over the next seven years and obtained economic gain (difference between the present values of the old and new debt service payments) of approximately \$ 42,200.

11) Commitments

Construction Contract - The City has entered into a construction contract totaling \$ 1,341,625 for construction of the Fairfax Athletics and Park Complex. As of June 30, 2013, \$ 1,262,042 had been disbursed under this contract. The balance of \$ 79,583 will be disbursed as work under this contract is completed.

Engineering Contract - The City has entered into an engineering contract totaling \$ 320,000 for design, bidding and construction services in connection with the East Cemetery Road Reconstruction, Drainage, Storm Sewer, Water Main and Sanitary Sewer Improvements Project. As of June 30, 2013, \$ 74,494 had been disbursed under this contract. The balance of \$ 245,506 will be disbursed as work under this contract completed.

12) Subsequent Events

In August, 2013, the City issued \$ 2,485,000 of general obligation bonds and entered into a construction contract totaling \$ 1,317,174 for Phase 1 of the East Cemetery Road Reconstruction, Drainage, Storm Sewer, Water Main and Sanitary Sewer Improvements Project. The City also purchased a utility vehicle, dump truck and ambulance in July, 2013 totaling \$ 254,017.

13) Related Party Transactions

The City had business transactions between the City and City officials totaling \$ 318.

OTHER INFORMATION

CITY OF FAIRFAX
BUDGETARY COMPARISON SCHEDULE
OF RECEIPTS, DISBURSEMENTS AND CHANGES IN BALANCES-
BUDGET AND ACTUAL (CASH BASIS)-ALL GOVERNMENTAL FUNDS AND PROPRIETARY FUNDS
OTHER INFORMATION
Year Ended June 30, 2013

	Governmental Funds		Proprietary Funds		Total	Budgeted Amounts		Final to Total Variance
	Actual		Actual			Original	Final	
Receipts:								
Property tax	\$ 520,387	-	-	-	520,387	507,353	507,353	13,034
Tax increment financing	717,125	-	-	-	717,125	745,000	745,000	(27,875)
Other city tax	247,776	-	-	-	247,776	288,669	288,669	(40,893)
Licenses and permits	26,452	-	-	-	26,452	25,000	25,000	1,452
Use of money and property	13,876	19	-	-	13,895	37,520	37,520	(23,625)
Intergovernmental	347,783	-	-	-	347,783	833,190	833,190	(485,407)
Charges for service	5,105	-	-	-	725,594	697,000	743,700	(13,001)
Miscellaneous	142,454	9,292	-	-	151,746	47,000	124,000	27,746
Total receipts	2,020,958	734,905	2,755,863	3,180,732	3,304,432	(548,569)		
Disbursements:								
Public safety	400,435	-	-	-	400,435	484,790	520,653	120,218
Public works	417,548	-	-	-	417,548	1,145,000	1,210,500	792,952
Culture and recreation	1,602,417	-	-	-	1,602,417	3,185,641	3,199,041	1,596,624
Community and economic development	5,326	-	-	-	5,326	6,000	6,000	674
General government	198,952	-	-	-	198,952	251,250	266,250	67,298
Debt service	1,468,724	-	-	-	1,468,724	802,784	1,468,898	174
Business type activities	-	511,010	-	-	511,010	745,355	725,450	214,440
Total disbursements	4,093,402	511,010	4,604,412	6,620,320	7,396,792	2,792,380		
Excess (deficiency) of receipts over (under) disbursements	(2,072,444)	223,895	(1,848,549)	(3,440,088)	(4,092,360)			2,243,811
Other financing sources, net	341,759	(306,335)	35,424	3,164,000	3,164,000			(3,128,576)
Deficiency of receipts and other financing sources under disbursements and other financing uses	(1,730,685)	(82,440)	(1,813,125)	(276,088)	(928,360)			(884,765)
Balances beginning of year	2,889,740	482,750	3,372,490	1,195,178	3,372,458			32
Balances end of year	\$ 1,159,055	400,310	1,559,365	919,090	2,444,098			(884,733)

See accompanying auditor's report and notes to other information-
budgetary reporting.

CITY OF FAIRFAX

Notes to Other Information - Budgetary Reporting

June 30, 2013

The budgetary comparison is presented as Other Information in accordance with Governmental Accounting Standards Board Statement No. 41 for governments with significant budgetary perspective differences resulting from not being able to present budgetary comparisons for the General Fund and each major Special Revenue Fund.

In accordance with the Code of Iowa, the City Council annually adopts a budget on the cash basis following required public notice and hearing for all funds except Internal Service Funds. The annual budget may be amended during the year utilizing similar statutorily prescribed procedures.

Formal and legal budgetary control is based upon nine major classes of disbursements known as functions, not by fund. The nine functions are: public safety, public works, health and social services, culture and recreation, community and economic development, general government, debt service, capital projects and business type activities. Function disbursements required to be budgeted include disbursements for the General Fund, the Special Revenue Funds, the Debt Service Fund, the Capital Projects Fund, the Permanent Fund and the Enterprise Funds. Although the budget document presents function disbursements by fund, the legal level of control is at the aggregated function level, not by fund. During the year, one budget amendment increased budgeted disbursements by \$ 775,972. The budget amendment is reflected in the final budgeted amounts.

SUPPLEMENTARY INFORMATION

CITY OF FAIRFAX
 SCHEDULE OF CASH RECEIPTS, DISBURSEMENTS AND
 CHANGES IN CASH BALANCES
 NONMAJOR PROPRIETARY FUNDS
 As of and for the Year Ended June 30, 2013

	Enterprise		
	Garbage	Farm Operations	Total
Operating receipts:			
Charges for service	\$ 113,805	12,945	126,750
Operating disbursements:			
Business type activities	109,370	11,504	120,874
Excess of operating receipts over operating disbursements	4,435	1,441	5,876
Non-operating receipts:			
Interest on investments	-	19	19
Miscellaneous	-	60	60
Net non-operating receipts	-	79	79
Excess of receipts over disbursements	4,435	1,520	5,955
Cash balances beginning of year	11,765	27,004	38,769
Cash balances end of year	\$ 16,200	28,524	44,724
Cash Basis Fund Balances			
Unrestricted	\$ 16,200	28,524	44,724

See accompanying independent auditor's report.

CITY OF FAIRFAX
SCHEDULE OF INDEBTEDNESS
Year Ended June 30, 2013

Schedule 2

Obligation	Date of Issue	Interest Rates	Amount Originally Issued	Balance Beginning of Year	Issued During Year	Redeemed During Year	Balance End of Year	Interest Paid
General obligation notes:								
Wastewater improvement	Dec 1, 2004	3.55-4.50%	\$ 700,000	430,000	-	430,000	-	1,512
Sanitary water improvement	Oct 1, 2005	3.40-3.70	650,000	265,000	-	85,000	180,000	9,545
Sanitary sewer and refunding	Mar 1, 2008	2.80-3.40	560,000	350,000	-	65,000	285,000	11,090
Refunding	Apr 1, 2008	3.25-3.70	780,000	410,000	-	95,000	315,000	14,285
Water improvement	Mar 24, 2009	2.75-4.20	790,000	720,000	-	70,000	650,000	26,198
Total				\$ 2,175,000	-	745,000	1,430,000	62,630
General obligation bonds:								
Water improvement	Feb 10, 2010	3.00%	\$ 118,000	103,000	-	5,000	98,000	3,090
Fire truck and refunding	Sep 9, 2010	1.40-2.00	335,000	205,000	-	65,000	140,000	3,500
Water improvement	May 12, 2011	1.35-3.65	540,000	540,000	-	50,000	490,000	14,185
Water main improvement and Fairfax Athletics and Park Complex	Nov 10, 2011	2.00-3.00	2,260,000	2,260,000	-	175,000	2,085,000	51,390
Fire truck and refunding	Jun 26, 2012	0.60-1.70	590,000	590,000	-	75,000	515,000	5,725
Total				\$ 3,698,000	-	370,000	3,328,000	77,890
Revenue bonds:								
Sewer	Dec 1, 2008	3.00%	\$ 2,400,000	2,262,000	-	122,000	2,140,000	67,860
Lease/purchase agreements:								
Caterpillar backhoe loader	Feb 12, 2008	5.49%	\$ 87,951	28,970	-	28,970	-	1,590
Caterpillar compact track loader	Apr 12, 2011	5.65	47,653	41,376	-	6,631	34,745	2,338
Total				\$ 70,346	-	35,601	34,745	3,928

See accompanying independent auditor's report.

CITY OF FAIRFAX
BOND AND NOTE MATURITIES
June 30, 2012

Schedule 3

General Obligation Notes									
Year Ending June 30,	Sanitary Sewer Improvement Issued Oct 1, 2005			Sanitary Sewer and Refunding Issued Mar 1, 2008			Refunding Issued Apr 1, 2008		
	Interest Rates	Amount		Interest Rates	Amount		Interest Rates	Amount	Total
2014	3.60%	\$ 90,000		3.10%	\$ 70,000		3.40%	\$ 100,000	335,000
2015				3.10	70,000		3.55	105,000	340,000
2016	3.70	90,000		3.40	75,000		3.70	110,000	260,000
2017				3.40	35,000				80,000
2018									115,000
2019				3.40	35,000				85,000
2020									90,000
2021									90,000
Total		\$ 180,000			\$ 285,000			\$ 315,000	1,430,000

General Obligation Bonds									
Year Ending June 30,	Water Improvement Issued Feb 10, 2010			Fire Truck and Refunding Issued Sep 9, 2010			Water Improvement Issued May 12, 2011		
	Interest Rates	Amount		Interest Rates	Amount		Interest Rates	Amount	Total
2014	3.00%	\$ 5,000		1.70%	\$ 70,000		1.35%	\$ 50,000	385,000
2015	3.00	5,000		2.05	70,000		2.05	50,000	385,000
2016							2.05	50,000	320,000
2017	3.00	5,000					2.65	50,000	320,000
2018							2.65	55,000	300,000
2019	3.00	6,000					3.15	55,000	306,000
2020							3.15	60,000	311,000
2021	3.00	6,000					3.65	60,000	261,000
2022									266,000
2023	3.00	6,000					3.65	60,000	216,000
2024									222,000
2025	3.00	7,000							7,000
2026									7,000
2027	3.00	7,000							7,000
2028									7,000
2029	3.00	8,000							8,000
Total		\$ 98,000			\$ 140,000			\$ 490,000	3,328,000

(continued)

CITY OF FAIRFAX
BOND AND NOTE MATURITIES
June 30, 2013

Year Ending June 30,	Revenue Bonds	
	Issued Feb 2, 2008	
	Interest Rates	Amount
2014	3.00%	\$ 125,000
2015	3.00	129,000
2016	3.00	133,000
2017	3.00	137,000
2018	3.00	141,000
2019	3.00	145,000
2020	3.00	150,000
2021	3.00	154,000
2022	3.00	159,000
2023	3.00	163,000
2024	3.00	168,000
2025	3.00	173,000
2026	3.00	179,000
2027	3.00	184,000
Total		<u>\$ 2,140,000</u>

See accompanying independent auditor's report.

CITY OF FAIRFAX
 SCHEDULE OF RECEIPTS BY SOURCE AND DISBURSEMENTS BY FUNCTION
 ALL GOVERNMENTAL FUNDS
 For the Last Four Years

	2013	2012	2011	2010
Receipts:				
Property tax	\$ 520,387	540,087	452,537	425,909
Tax increment financing	717,125	450,269	589,491	585,576
Other city tax	247,776	261,920	213,898	210,814
Licenses and permits	26,452	30,703	35,626	33,250
Use of money and property	13,876	29,960	24,692	33,586
Intergovernmental	347,783	334,696	288,938	288,017
Charges for service	5,105	10,240	4,425	-
Miscellaneous	142,454	65,599	46,696	86,731
Total	<u>\$ 2,020,958</u>	<u>1,723,474</u>	<u>1,656,303</u>	<u>1,663,883</u>
Disbursements:				
Operating:				
Public safety	\$ 400,435	262,658	327,357	155,302
Public works	417,548	265,955	462,784	336,818
Culture and recreation	1,602,417	1,123,820	253,544	219,882
Community and economic development	5,326	11,992	-	5,064
General government	198,952	240,765	189,052	206,012
Debt service	1,468,724	805,257	917,470	661,240
Total	<u>\$ 4,093,402</u>	<u>2,710,447</u>	<u>2,150,207</u>	<u>1,584,318</u>

See accompanying independent auditor's report.

STEVEN S. CLAUSEN, CPA

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**INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL
OVER FINANCIAL REPORTING AND ON COMPLIANCE AND
OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS
PERFORMED IN ACCORDANCE WITH
GOVERNMENT AUDITING STANDARDS**

To the Honorable Mayor and
Members of the City Council:

We have audited in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States, the financial statements of the governmental activities, business type activities, each major fund, and the aggregate remaining fund information of the City of Fairfax, Iowa as of and for the year ended June 30, 2013, and the related notes to the financial statements which collectively comprise the City's basic financial statements, and have issued our report thereon dated December 13, 2013. Our report expressed unmodified opinions on the financial statements which were prepared on the basis of cash receipts and disbursements, a basis of accounting other than U.S. generally accepted accounting principles.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the City of Fairfax's internal control over financial reporting to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City of Fairfax's internal control. Accordingly, we do not express an opinion on the effectiveness of the City of Fairfax's internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the City's financial statements will not be prevented, or detected and corrected on a timely basis. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City of Fairfax's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under Government Auditing Standards. However, we noted certain immaterial instances of non-compliance or other matters which are described in Part II of the accompanying Schedule of Findings.

Comments involving statutory and other legal matters about the City's operations for the year ended June 30, 2013 are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of the City. Since our audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes.

City of Fairfax's Responses to Findings

The City of Fairfax's responses to findings identified in our audit are described in the accompanying Schedule of Findings. The City of Fairfax's responses were not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on them.

Purpose of This Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the City's internal control or on compliance. This report is an integral part of an audit performed in accordance with Government Auditing Standards in considering the City's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

We would like to acknowledge the many courtesies and assistance extended to us by personnel of the City of Fairfax during the course of our audit. Should you have any questions concerning any of the above matters, we shall be pleased to discuss them with you at your convenience.

Elkader, Iowa

December 13, 2013



Dietz, Donald & Company
Certified Public Accountants
FEIN 42-1172392

CITY OF FAIRFAX
SCHEDULE OF FINDINGS
Year Ended June 30, 2013

Part I: Findings Related to the Financial Statements:

INTERNAL CONTROL DEFICIENCIES:

No material weaknesses were identified

INSTANCES OF NON-COMPLIANCE

No matters were noted.

CITY OF FAIRFAX
SCHEDULE OF FINDINGS
Year Ended June 30, 2013

Part II: Other Findings Related to Statutory Reporting:

II-A-13 Certified Budget - Disbursements during the year ended June 30, 2013 did not exceed the amounts budgeted.

II-B-13 Questionable Disbursements - Certain disbursements we believe may not meet the requirements of public purpose as defined in an Attorney General's opinion dated April 25, 1979 since public benefits to be derived have not been clearly documented were noted. The disbursements were as follows:

<u>Paid to</u>	<u>Purpose</u>	<u>Amount</u>
Fareway	Pop and food for Fire Department, City Employees	\$ 1,163
Target	Food for Fire Department	97

According to the opinion, it is possible for such disbursements to meet the test of serving a public purpose under certain circumstances, although such items will certainly be subject to a deserved close scrutiny. The line to be drawn between a proper and an improper purpose is very thin.

Recommendation - The City Council should determine and document the public purpose served by these disbursements before authorizing any further payments. If this practice is continued, the City should establish written policies and procedures, including the requirements for proper documentation.

Response - We will carefully consider this recommendation.

Conclusion - Response accepted.

II-C-13 Travel Expense - No disbursements of City money for travel expenses of spouses of City officials or employees were noted.

II-D-13 Business Transactions - Business transactions between the City and City officials or employees are detailed as follows:

CITY OF FAIRFAX
SCHEDULE OF FINDINGS
Year Ended June 30, 2013

Name, Title and Business Connection	Transaction Description	Amount
Marianne Wainwright, Mayor Pro tem, Employee LL Pelling Co.	Seal coat, pre mix	\$ 318

In accordance with Chapter 362.5(3)(k) of the Code of Iowa, the transactions with LL Pelling Co do not appear to represent a conflict of interest since the transactions were less than \$ 2,500.

- II-E-13 Bond Coverage - Surety bond coverage of City officials and employees is in accordance with statutory provisions. The amount of coverage should be reviewed annually to insure that the coverage is adequate for current operations.
- II-F-13 Council Minutes - No transactions were found that we believe should have been approved in the Council minutes but were not.
- II-G-13 Deposits and Investments - No instances of noncompliance with the deposit and investment provisions of Chapter 12B and 12C of the Code of Iowa and the City's investment policy were noted.
- II-H-13 Revenue Bonds - Debt service requirements for the sewer revenue bonds for the fiscal year ended June 30, 2013 were \$ 189,860, while the Enterprise, Sewer Fund net operating receipts were only \$ 185,164. It appears the debt service requirements exceeding net operating receipts in the Enterprise, Sewer Fund violates the revenue bond covenants.

Recommendation - The City should investigate ways to increase net operating receipts in the sewer enterprise activity.

Response - The City has increased sewer rates.

Conclusion - Response accepted.